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TO RUEHC/SECSTATE WASHDC 2514
INFO RUEHBO/AMEMBASSY BOGOTA 3958
RUEHBU/AMEMBASSY BUENOS AIRES 2595
RUEHCV/AMEMBASSY CARACAS 9796
RUEHQT/AMEMBASSY QUITO 0715
RUEHLP/AMEMBASSY LA PAZ SEP SANTIAGO 0871
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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UNCLAS LIMA 003887

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DEPT FOR WHA/AND, WHA/EPSC, EB/TPP
COMMERCE FOR 4331/MAC/WH/MCAMERON
USTR FOR BHARMAN AND MCARRILLO
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SUBJECT: GOP MEDIATES END OF SIX-DAY PORT STRIKE

SUMMARY

1. (SBU) A late-night deal on September 25, mediated by the Prime Minister and the Ministers of Labor and Trade, ended a strike that had closed Callao, Peru's largest port, for six days. Under the deal, the daily minimum wage for longshoremen was increased from USD 9.26 to USD 12.35, with specialized longshoremen (such as crane operators) receiving USD 13.89. Although the port closure had sent negative signals to international business, the Garcia Administration's successful intervention -- avoiding escalation and resulting in higher wages -- should score the ruling APRA party some points in the November 19 regional elections. End Summary.

LABOR DEMANDS

2. (U) Longshoremen at the Port of Callao -- Peru's largest port, moving 80 percent of Peru's international port trade -- went on strike on September 20, demanding sector-wide wage increases. These demands for higher wages were partly fueled by increased port activity resulting from Peru's export boom. Exports have increased every month for the past four and a half years. The employers, represented by the business groupings APAM (Peruvian Maritime Agents Association) and ASPPOR (Peruvian Port Operators Association), have long opposed sector-wide negotiations because some firms manage huge volumes of containers while others have very small operations and cannot pay the same salaries. These employers refused to meet with the complaining workers as a group, leading to the strike. The strike completely closed the port, just outside of Lima, to imports and exports. The longshoremen threatened to escalate their protests to include hunger strikes and picketing of export-import companies.

SUCCESSFUL GOP MEDIATION

3. (U) The Ministry of Labor tried to convince the employers to negotiate, but failed. Prime Minister Jorge del Castillo, Labor Minister Susana Pinilla, and Trade and Tourism Minister Mercedes Araoz then became personally involved and succeeded in bringing both parties to the table on September 24. Congressman Luis Negreiros (APRA Party), who represents the district of Callao, also participated in the negotiations on behalf of the workers. President Alan Garcia himself announced that a late-night deal ending the strike was finally worked out on September 25.

THE DEAL

14. (U) Under the deal, the daily minimum wage for longshoremen was increased from 30 soles (about USD 9.26) to 40 soles (about USD 12.35) per eight-hour day, with specialized longshoremen (e.g. machine operators) receiving 45 soles (about USD 13.89). To account for the differences in workloads, each employer was also tasked with working with his/her employees to establish company-specific additional wage bonuses based on productivity by September 28. President Garcia also announced the creation of a committee -- including the Ministries of Labor, Transportation and Trade, the National Port Authority (APN), APAM, ASSPOR, and labor unions -- that will discuss the problem of informal labor in the sector, limits on the number of shifts per month per worker, and restructuring of the longshoremen's registry.

THE STRIKE'S COSTS

15. (U) The Peruvian Association of Exporters (ADEX) estimated that Peru lost USD 44 million in exports and USD 30 million in imports each day the port was closed. Trade Ministry and other estimates cite total losses of between USD 20 million and 79 million per day. During the closure, more than two dozen ships lined up at sea awaiting access to the port, and at least six ships proceeded to other ports. According to press reports, the daily additional operating cost per ship of waiting at sea was USD 35,000.

CALLAO'S INEFFICIENCY

16. (U) The Port of Callao is already perhaps the least efficient and most costly of the ports in the region, and these wage increases may make Callao even less competitive. A 2004 study by the well-regarded Peruvian Institute of Economy (IPE) found that on a scale of 1 (least efficient) to 7 (most efficient), the port of Callao scored 4.8. Every other port in the study scored higher: Guayaquil (Ecuador) 4.9, Arica (Chile) 5.0, Cartagena (Colombia) 6.4, and Matarani (Peru) 6.4. Callao's international competitiveness ranking dropped from 56 in 2001 to 97 in 2005, due largely to a lack of infrastructure investment. Callao has the second-worst port infrastructure in the region and the twentieth-worst in the world (IPE). According to Crecer and the World Bank, the Port of Callao has \$217 million per year in logistical overage charges, 70 percent higher than the regional average. While competitor Valparaiso (Chile) moves 28 containers per hour, Callao moves only 10 and costs 50 percent more. Of the top ten ports in the region by volume, Callao is the only one without any cranes (dock-mounted or portable), so ships must have cranes on board to offload and load containers, reducing their cargo capacity. Work is currently underway to add cranes and a new container terminal by 2010.

COMMENT

17. (SBU) The closure of Peru's biggest port was a costly international embarrassment that could still send some business elsewhere. Callao has a long way to before it even approaches its regional competitors' levels of efficiency. This wasn't the first strike at the Port of Callao, and the longshoremen will surely continue to push for sector-wide collective bargaining rights, especially since international competition and modernization will further erode the need for their services. However, the successful intervention by the Garcia Administration is likely to bolster the GOP's approval ratings and win the ruling APRA party some points in the November 19 regional elections. As Labor Minister Pinilla announced, "this agreement shows that through dialogue, positive outcomes for workers are possible." End Comment.

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